CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

™

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR
LANCASTER, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-048
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR
LANCASTER, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Harvey Hunter, CPA	Auditor
Hardeep Kaur	Auditor

AUDIT REPORT NUMBER

#09-048

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR
LANCASTER, CALIFORNIA

TABLE OF CONTENTS

PAGE

Deana Carter-Ward, President
Board of Directors
50th DAA, Antelope Valley Fair
2551 W. Avenue H, Suite 102
Lancaster, California 93536

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 50th District Agricultural Association (DAA), Antelope Valley Fair, Lancaster, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 50th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 50th DAA, Antelope Valley Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 50th DAA, Antelope Valley Fair, has not presented the Management’s Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-048, on the 50th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 50th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

Ron Shackelford, CPA
Chief, Audit Office

October 2, 2009

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash & Cash Equivalents	111 - 117	$ 2,058,406	$ 2,604,442
Accounts Receivable, Net	131	156,884	219,768
Inventory	141	1,591	3,606
Deferred Charges	143	11,899	11,759
Construction in Progress	190	4,643	5,444,824
Land and Land Improvements, Net	191	6,245,129	6,260,728
Buildings and Improvements, Net	192	22,993,068	22,115,067
Equipment, Net	193	913,584	923,876
Leasehold Improvement-Photovoltaic, Net	194	4,910,455	-
TOTAL ASSETS		**37,295,657**	**37,584,070**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	99,252	232,313
Current Portion of Long Term Debt	212.5	448,735	154,304
Taxes Payable	213 - 226	11,359	8,387
Deferred Income	228	3,720	96,913
Guaranteed Deposits	241	83,461	83,905
Compensated Absences Liability	245	146,538	123,480
Long Term Debt	250	1,620,407	2,069,142
Total Liabilities		**2,413,472**	**2,768,444**
Net Resources			
Net Resources - JLA	251	41,468	17,286
Net Resources - Operations	291	1,842,982	2,277,293
Net Resources - Capital Assets, Less Related Debt	291.1	32,997,736	32,521,047
Total Net Resources Available		**34,882,186**	**34,815,626**
TOTAL LIABILITIES AND NET RESOURCES		**$ 37,295,657**	**$ 37,584,070**

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	**2008**	**2007**
REVENUE			
State Apportionments	312	$ 20,000	$ 40,000
Capital Project Funds	319	798,212	4,445,696
Admissions	410	827,951	875,834
Commercial Space	415	167,434	173,527
Carnival	421	380,792	365,966
Concessions - Food	422-423	533,470	495,639
Exhibits	430	33,845	38,579
Satellite Wagering	450	1,016,736	1,158,085
Attractions	460	560,959	722,156
Miscellaneuos Fair	470	711,002	663,389
Junior Livestock Auction Revenues	476	77,178	57,883
Non-Fair Revenues	480	996,842	1,238,080
Prior Year Revebnue Adjustment	490	(21,652)	15,300
Other Revenues	495	452,329	347,247
Total Revenue		**6,555,098**	**10,637,380**
EXPENSES			
Administration	500	792,853	744,491
Maintenance and Operations	520	604,103	607,917
Publicity	540	415,536	381,094
Attendance	560	546,865	460,496
Miscellaneous Fair	570	165,921	174,308
Junior Livestock Auction Expenses	576	52,997	38,762
Premiums	580	72,349	53,870
Exhibits	630	102,835	98,340
Satellite Wagering	650	736,956	754,294
Attractions - Fairtime	660	1,769,197	1,733,888
Equipment	723	104,127	77,217
Prior Year Expense	800	5,936	11,593
Cash Over/Short	850	4,295	3,489
Depreciation Expense	900	1,114,569	928,208
Total Expenses		**6,488,539**	**6,067,967**
RESOURCES			
Net Change - Income / (Loss)		66,559	4,569,414
Resources Available, January 1		34,815,626	30,246,212
Resources Available, December 31		**$ 34,882,186**	**$ 34,815,626**

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR & ALFALFA FESTIVAL
LANCASTER, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ 66,559	$4,569,414
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	62,884	90,189
(Increase) Decrease in Inventory	2,015	(3,606)
(Increase) Decrease in Deferred Charges	(140)	3,623
Increase (Decrease) in Accounts Payable and Accrued Expenses	(133,061)	71,970
Increase (Decrease) in Current Portion of Long-Term Debt	294,430	5,253
Increase (Decrease) in Sales and Payroll Taxes Payable	2,972	(5,173)
Increase (Decrease) in Guaranteed Deposits	(444)	(7,708)
Increase (Decrease) in Deferred Revenue	(93,193)	96,913
Increase (Decrease) in Leave Liability	23,058	13,975
Total Adjustments	158,523	265,436
Net Cash Provided (Used) by Operating Activities	**225,082**	**4,834,850**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease for Land and Land Improvements	15,599	725
(Increase) Decrease for Building and Improvements	(878,001)	779,305
(Increase) Decrease for Leasehold Improvements - Photovoltaic	(4,910,455)	-
(Increase) Decrease for Equipment	10,292	(58,716)
(Increase) Decrease for Construction in Progress	5,440,181	(4,615,138)
Net Cash Provided (Used) by Investing Activities	**(322,384)**	**(3,893,823)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Loans Payable, Capital Asset	(448,735)	(154,305)
Net Cash Provided (Used) by Financing Activities	**(448,735)**	**(154,305)**
NET INCREASE (DECREASE) IN CASH	**(546,036)**	**786,722**
Cash at Beginning of Year	2,604,442	1,817,720
CASH AT END OF YEAR	**$2,058,406**	**$2,604,442**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 50th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Antelope Valley Fair each year in Lancaster, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash & Change Funds	$ 65,890	$ 97,050
Cash in Bank - Operating	46,349	89,766
Cash in Bank – W&W Operating	28,870	55,399
Cash in Bank – Fair ATM	3,000	3,000
Cash in Bank – W&W ATM	52,200	35,980
Cash in Bank - JLA	8,321	11,294
Cash in Bank - Payroll	692	4,363
Cash in Bank – Time Deposits	1,615,892	2,049,118
Cash in Bank-Time Deposits-Restrict	221,591	259,517
Cash in Bank – Time Deposits - JLA	15,314	(1,456)
Cash in Bank – Merchant	287	411
Total Cash and Cash Equivalents	$ 2,058,406	$ 2,604,442

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	$ 162,025	$ 202,911
Interest Receivable	12,627	30,078
Allowance for Doubtful Accounts	(17,768)	(13,221)
Accounts Receivable - Net	$ 156,884	$ 219,768

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2008	2007
Land & Land Improvements	$ 6,245,129	$ 6,261,453
Less: Accumulated Depreciation – Exhaustible Land Improvements	0	(725)
Land and Land Improvements - Net	$ 6,245,129	$ 6,260,728
Building & Improvements	$26,314,177	$24,408,068
Less: Accumulated Depreciation	(3,321,109)	(2,293,001)
Building & Improvements - Net	$22,993,068	$22,115,067

Equipment	$ 1,825,755	$ 1,648,136
Less: Accumulated Depreciation	(912,171)	(759,042)
Equipment - Net	$ 913,584	$ 889,094

Leasehold Improvements-Photovoltaic	$ 4,929,464	$ -
Less: Accumulated Depreciation-Leasehold Improvements-Photovoltaic	(19,009)	-
Equipment - Net	$ 4,910,455	$ -

NOTE 6 **LONG-TERM DEBT**

As mentioned above, the DAA has entered into a long-term loan and a long-term lease agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project and marquee on the fairgrounds, respectively. The terms of the agreements are as follows:

CCA Photovoltaic Loan:

Loan Amount	$ 2,000,000
First Payment Date	May 2004
Payment Amount	$ 10,462
Duration of Loan	183 Months
Interest Rate	2.360%
Total Outstanding at 12/31/07	$ 1,621,166
Current Portion at 12/31/08	$ 88,237
Long-Term Portion at 12/31/08	$ 1,532,929

CCA Photovoltaic Project:

Loan Amount	$ 3,096,442
First Payment Date	May 2004
Payment Amount	$ 28,836
Duration of Loan	119 Months
Interest Rate	1.699%
Total Outstanding at 12/31/08	$ 3,096,442
Current Portion at 12/31/08	$ 288,967
Long-Term Portion at 12/31/08	$ 2,807,475

CCA Marquee Lease:

Loan Amount	$ 726,575
First Payment Date	July 2004
Payment Amount	$ 7,653.96
Duration of Lease	121 Months
Interest Rate	4.89%
Total Outstanding at 12/31/07	$ 447,976
Current Portion at 12/31/07	$ 71,531
Long-Term Portion at 12/31/07	$ 376,445

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR
LANCASTER, CALIFORNIA

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Number	Recipient
1	President, 50th DAA Board of Directors
1	Chief Executive Officer, 50th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR
LANCASTER, CALIFORNIA

MANAGEMENT REPORT #09-048

YEAR ENDED DECEMBER 31, 2008

50TH DISTRICT AGRICULTURAL ASSOCIATION
ANTELOPE VALLEY FAIR
LANCASTER, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Harvey Hunter, CPA	Auditor
Hardeep Kaur	Auditor

MANAGEMENT REPORT NUMBER
#09-048

TABLE OF CONTENTS

Deana Carter-Ward, President
Board of Directors
50th DAA, Antelope Valley Fair
2551 W. Avenue H, Suite 102
Lancaster, California 93536

In planning and performing our audit of the financial statements of the 50th District Agricultural Association (DAA), Antelope Valley Fair, Lancaster, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Antelope Valley Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 50th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 50th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 50th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 50th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 50th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 50th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: standard agreements, and concessionaire contracts. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 50th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of the standard agreement reveals the following exceptions:

a. The Fair did not request and receive in writing from the Division of Fairs E Expositions (F&E) approval prior to the execution of a contract with terms that exceed five years as required by the F&E Contract Manual (revised March 2008). Our office noted that although the Fair submitted some of the multi-year contracts exceeding $75,000 to F&E for the approval, the Fair prepared an addendum which contained an additional five year term making one contact a ten year contract, which was not pre-approved by F&E. According to F&E Contract Manual, Section 1.20, an amendment requires F&E approval when F&E approved the original contract or combined dollar amount of the amendment and the original contract will exceed $75,000.

b. The Fair did not always complete the Standard 215 Agreement Summary for each Standard 213 Agreement entered into as required by the F&E Contract Manual. The Standard 213 Agreements are used for contracts of $10,000 or more. The Std 215 Agreement Summary replaced the Std 15 Contract Transmittal and Pre-evaluation Form. This was a prior year finding.

c. Furthermore, the Fair did not submit on a quarterly basis a report listing all contracts processed during the quarter to F&E. According to the F&E Contract Manual, Section 1.30, each DAA is required to send a report to F&E that contains a list of all their Standard Agreements processed, regardless of dollar amount. The report must contain (i) contract numbers, (ii) term (beginning and end dates) including any option year information, (iii) contractor’s name, (iv) type of contract, (v) dollar amounts including any option year dollars, and (vi) Personal Services Determinations when applicable §19130(b). Contracts required to be reported are standard agreements, rental agreements, and amendments.

Recommendations

1. *The Fair should ensure that all contracts exceeding $75,000 are submitted to F&E for approval and that a written justification stating how the multi-year agreement is in the best interest of the Fair is prepared and included in the contract file. In addition, the Fair should follow the F&E Contract Manual and ensure that contracts exceeding a five year term are approved by F&E prior to the execution of the contract. In addition, instead of adding an addendum, the Fair should have executed a new contract.*
2. *The Fair should comply with the F&E Contract Manual and complete a Standard 215 Agreement Summary for each Std 213 Agreement entered into.*
3. *The Fair should comply with the F&E Contract Manual and submit to F&E on a quarterly basis, a report listing all contracts processed during the quarter.*

CONCESSIONAIRE CONTRACTS

Based on the review of concessionaire contracts, we noted the Fair did not obtain approval from F&E for a contract with the Friends of the Fair. Our office noted that the Fair entered into a one year contract with four one-year options making this a multi-year contract. At completion of the fifth year, our office noted that the Fair added an addendum extending the contract an additional making it a six year contract. If a contract exceeds a five year term, pre-approval from the F&E must be requested in writing and approved in writing prior to execution of the contract.

Recommendation

4. *The Fair should ensure that all contracts with terms greater than five years are pre-approved by F&E prior to execution of the contract. In addition, instead of adding an addendum, the Fair should have executed a new contract.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

An audit of the Fair's accounting for fixed assets identified that the Fair under-recorded the total project cost of the photovoltaic project by approximately $570,268 within its general ledger at year-end. Based on a review by our office, the Fair did not include the soft costs associated with financing the total project costs. The majority of the soft costs represent two items, (i) construction interest totaling $353,049 and (ii) an Owners Issuance Discount totaling $80,400. It should be noted that as of the Statement of Operations (STOP) reporting date, the Fair had not received the final costs from the organization that completed the project on the fairgrounds.

Recommendation

> *The Fair should make the necessary adjusting journal entries to ensure the photovoltaic project is fully accounted for within its accounting records, specifically the general ledger, property ledger, and depreciation schedule.*

EMPLOYEE TIME RECORDS

Our office analyzed the Fair's accounting for compensated absences and noted that the Fair allowed one employee to take 76 hours of annual leave in December 2008 without having earned sufficient compensated leave to cover the absence. The Fair paid the full salary for the period instead of "docking" the employee for time not worked. The Fair allowed this employee to receive regular salaries by creating negative balances in the individual's accrued compensated leave balances. The Fair should be cautioned that this practice can be construed as a gift of public funds as there was no accrued time and an employee cannot be fully paid if they do not have enough earned leave on the books to cover the absence.

In addition, eight Standard Form 634, Absence and Additional Time Worked Report, contained no authorizing supervisor signature indicating the timesheet was reviewed and approved for payment. According to the Accounting Procedures Manual (APM) Section 4.1, Timecards and Leave Records, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor and time cards should show hours worked and leave taken.

Recommendations

> *The Fair should discontinue the practice of paying an employee their regular salary when the employee's individual accrued compensated leave balance will not cover the hours missing for a specific pay period. In the future, the Fair should ensure that employees taking paid time off have enough time on the books to cover requested paid time off.*

The Fair should improve its controls over time card maintenance by reviewing and approving employees' time worked in a timely manner, and ensuring that each employee signs their own respective timesheets.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

ANTELOPE VALLEY
FAIRGROUNDS

February 18, 2010

California Department of Food & Agriculture
Ron Shackelford, CPA
Chief, Audit Office
2014 Capital Avenue, Suite 107
Sacramento, CA 95814

RE: Management Report #09-048

Dear Mr. Shackelford:

In response to the audit of the 50th District Agriculture Association for the period ended December 31, 2008, we are enclosing our comments for the implementation of necessary corrections as recommended.

Standard Agreements:

a. Contracts/amendments exceeding term limits and amounts: Staff has contacted F&E to correct the one contract in reference and will submit all future multi-year contracts, exceeding 5 years, to F&E for pre-approval.

b. Standard 215 preparation: Staff has implemented new procedure to ensure that a Standard 215 is prepared with all Standard 213 contracts.

c. Quarterly reporting of contracts processed: Staff has implemented new procedure to ensure a quarterly report of contracts processed is prepared and submitted to F&E as required.

Concessionaire Contracts:

The contract in question expired and has since been re-issued (new contract) and is in Sacramento waiting for approval.

The board, management and staff have reviewed the non-reportable items as well and are in the process of implementing corrections.

: 2551 West Avenue H, Suite 102, Lancaster, CA 93536 : (661) 948-6060 : (661) 942-2135 : http://www.avfair.com

The management and board of directors recognize their responsibility to safeguard the assets and financial operations of the 50th District Agricultural Association and appreciate the audit office for their guidance.

Sincerely,

Daniel P. Jacobs
General Manager

Deana M. Carter-Ward
Board President

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 50th DAA, Antelope Valley Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between September 14, 2009 and October 2, 2009. My staff met with management on October 1, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

October 2, 2009

REPORT DISTRIBUTION

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1	President, 50th DAA Board of Directors
1	Chief Executive Officer, 50th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office